HOUSING MARKET INFORMATION

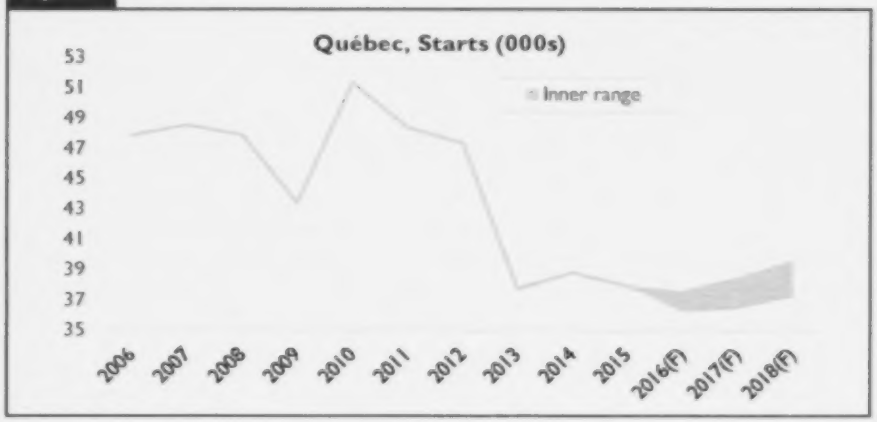
HOUSING MARKET OUTLOOK
Quebec Region Highlights

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fourth quarter 2016

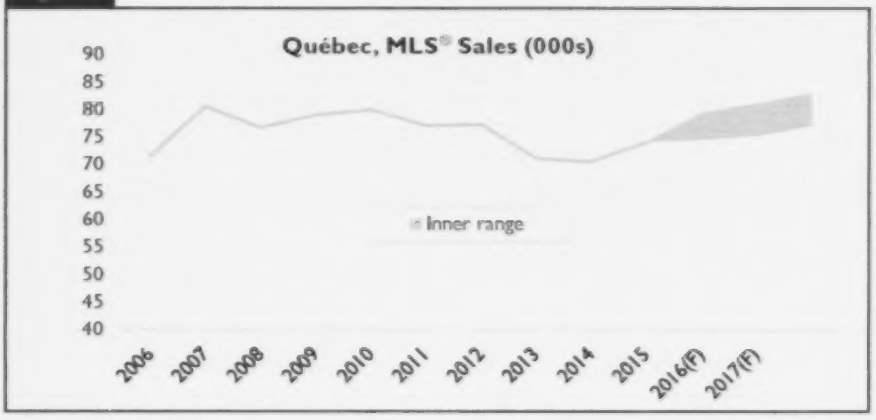
Housing Market Forecast

Figure 1



Source: CMHC (F): Forecast

Figure 2



Source: CMHC (F): Forecast

The forecasts and historical data included in this document reflect information available as of September 30, 2016.

Overview

Quebec's moderately growing economy will provide some stimulus to housing demand in 2017 and 2018. As a result, the province's resale markets will gradually tighten and prices will remain sustained. Meanwhile, an acceleration in population aging will provide impetus to residential construction, in particular to the apartment market segment.

In the next two years, economic growth will stem from consumer spending and public expenditure growth. As a result, Quebec GDP growth will increase from 1.3 per cent in 2016 to 1.7 per cent next year and pick up to 2.0 per cent in 2018. The impact on labour markets will be felt more substantially in 2017. As a result, employment will grow at a rate of 0.8 per cent next year and of 0.9 per cent in 2018.

The moderately growing job market and the relative weakening of labour markets in parts of western Canada will help retain some workers in the province and possibly attract others back. Moreover, with the help of rising immigration targets, total net migration will average 45,000 per year during the forecast period. Such higher levels will have a stimulative impact on demand in Quebec's rental markets.

In Detail

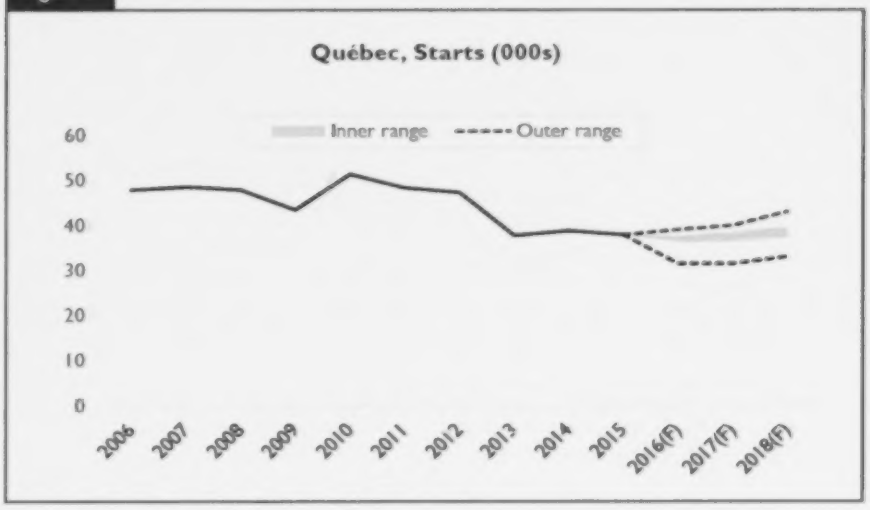
Single Starts

The moderate employment growth and the tightening of the resale market will not have a significant impact on demand for new single-detached homes in the forecast horizon. Both demand and market share in this market segment will continue their downward trends as demand and supply continue to shift toward apartments. Starts will be situated within the 9,000 and 10,000 levels in 2017 and within the 8,800 and 9,800 levels next year.

Multiple Unit Starts

While condominium starts continue to be held back by relatively high levels of supply, renewed activity in the retirement home segment and in the purpose built rental market in some areas of the province will sustain multi-family starts in both 2017 and 2018. The forecast range for 2017 includes lower bound of 27,300 starts and upper bound of 28,500 units. For 2018, the range will shift up by around 1,000 units.

Figure 3



Source: CMHC (F): Forecast

Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

Resales

In the next two years, sales of existing houses should be fuelled by employment growth. In 2017, sales recorded by Centris® should lie within a range of between 75,250 and 81,250 transactions. In 2018, the forecast range will move up slightly (77,000 to 83,000 transactions).

Prices

Despite relatively high supply levels in certain market segments, the gradual tightening of resale markets will sustain prices during the forecast horizon. In this context, the average resale price will lie within the $283,000 and $290,000 band in 2017 and between the $288,800 and $295,800 marks the following year.

Mortgage rates are expected to rise modestly over the forecast horizon

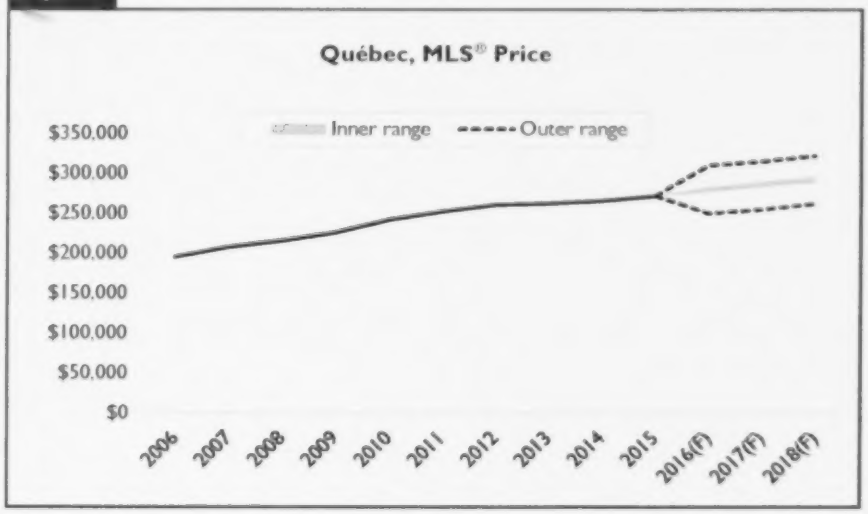
Mortgage rates are expected to increase very modestly over the period 2016-2018. This is consistent with the expected pick-up over the horizon for inflation and real GDP growth by several forecasting institutions.

According to our base case scenario, the posted 5-year mortgage rate is expected to be within a 4.5 to 4.9 per cent range in 2016 and within a 4.4 to 5.2 range in 2017. For 2018, the posted 5-year mortgage rate should lie within a 4.5 to 5.7 per cent range.

Figure 4

Source: CMHC (F): Forecast

Figure 5



Source: CMHC (F): Forecast

The impact of mortgage regulation changes

On October 3, the Government of Canada announced measures designed to support the health and stability of Canadian housing markets and housing finance system. The measures include new eligibility rules for high ratio insured mortgages (where the loan to value ratio is greater than 80%) and new eligibility criteria for low ratio insured loans (loan-to-value less than 80%) that previously only applied to high ratio mortgages. Under the new measures, all high ratio mortgages will now be "stress tested" to ensure borrowers can afford their loan if interest rates rise. Borrowers will now have to meet higher debt servicing limits calculated using the greater of the contract rate and the Bank of Canada's 5 year posted rate. The latter is currently more than 2% higher than typical contract rates. This "stress test" approach has been applied since 2010 to variable rate mortgages and fixed rate mortgages of a term of less than 5 years. Applying this stress test to loans with terms of five years and longer extends this test to all high-ratio insured mortgages.

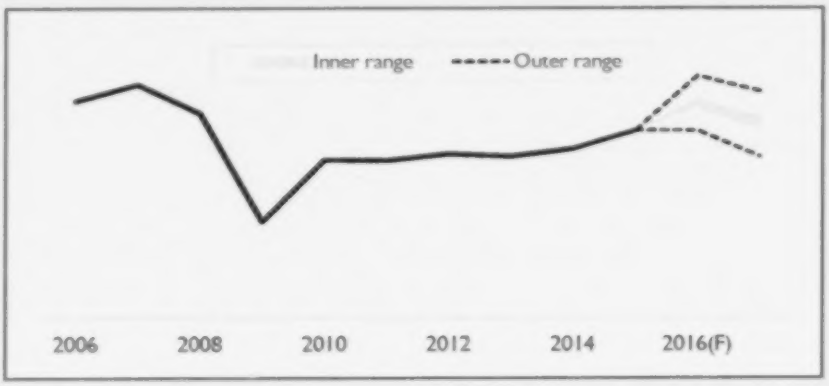
As the policy just took effect, it is difficult to precisely evaluate the impacts on housing markets. In general, an increase in mortgage rates affects house prices, sales, and starts negatively. However, the stress test approach affects the size of the insured mortgage for which the home borrower qualifies and it is not an increase in the mortgage rate itself. As a result, borrowers could adjust their purchase behaviour in several ways. For example, they could purchase homes that are less expensive, add more down payment, delay their purchase in order to save additional funds for down payment, or add a co-signor. According to our analysis, from 5 to 10 per cent of all prospective home buyers could be affected during the first year of implementation, but the precise impact will vary depending on specific homebuyer circumstances and behaviours. Considering regional variations in drivers of housing activities, it is also likely that the impact of the announced changes could be different across the country. Taking into account all possible scenarios, the impacts on house prices, sales, and starts are within the lower band of our outer forecasting range that is designed to capture unexpected economic and financial developments, as well as unforeseen regulatory changes at the local, provincial, and national levels.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary Québec Fall 2016									
	2013	2014	2015	2016(F)		2017(F)		2018(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	13,144	11,227	9,698	9,700	10,300	9,100	10,000	8,800	9,800
Multiples	24,614	27,583	28,228	26,500	27,300	27,300	28,500	28,400	29,800
Starts - Total	37,758	38,810	37,926	36,200	37,600	36,400	38,500	37,200	39,600
Resale Market									
Centris® Sales	71,194	70,621	74,125	74,500	79,500	75,250	81,250	77,000	83,000
Centris® Average Price($)	267,623	271,172	275,210	276,500	283,500	283,000	290,000	288,800	295,800
Economic Overview									
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.50	4.90	4.40	5.20	4.50	5.70

	2013	2014	2015	2016(F)	2017(F)	2018(F)
Rental Market						
October Vacancy Rate (%)	3.0	3.6	4.3	4.4	4.3	4.1
Two-bedroom Average Rent (October)($)	719	730	748	761	773	781
Economic Overview						
Population	8,174,083	8,237,304	8,284,656	8,321,262	8,389,706	8,457,025
Annual Employment Level	4,060,800	4,059,700	4,097,000	4,115,700	4,150,600	4,189,800
Net Migration	35,540	35,932	31,212	45,546	45,000	45,000
Average Weekly Earnings ($)	794	814	830	857	884	912

QFREB by Centris®. The Centris® system contains all the listings of Québec real estate board.

Rental Market: Corresponds to universe of privately initiated rental apartment structures of three units and over. Historical and forecast values are an aggregate roll-up of the Census Metropolitan Area (CMA) historical data and forecasts from each province.

The forecasts (F) included in this document are based on information available as of 30th September 2016. (L)=Low end of Range.(H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, Centris®, CMHC Forecast (2016-2018).

Québec Region Economic and Housing Indicators

		Labour Market			Housing Market				
		Emp. Growth (%)	Unemp. Rate (%)	Average Weekly Earnings ($)	Total Starts	Single-Detached Starts	Multiple Starts	Centris® Sales	Centris® Average Price ($)
Gatineau	Q2 2016	-1.7	7.3	988	396	66	330	1,294	246,720
	Q2 2015	2.4	7.5	931	543	107	436	1,154	249,551
	Change	-4.1	-0.2	6.1%	-27.1	-38.3	-24.3	12.1	-1.1
Montréal	Q2 2016	0.8	7.9	874	4,719	869	3,850	12,744	348,066
	Q2 2015	1.2	8.8	841	4,526	786	3,740	12,576	337,343
	Change	-0.4	-0.9	4.0%	4.3	10.6	2.9	1.3	3.2
Québec	Q2 2016	-2.9	4.0	869	1,588	288	1,300	2,013	268,870
	Q2 2015	3.8	4.1	831	1,578	299	1,279	1,978	270,335
	Change	-6.7	-0.1	4.5%	0.6	-3.7	1.6	1.8	-0.5
Saguenay	Q2 2016	-4.9	8.6	822	119	66	53	382	183,592
	Q2 2015	-0.9	7.5	803	189	85	104	390	188,223
	Change	-4.0	1.1	2.3%	-37.0	-22.4	-49.0	-2.1	-2.5
Sherbrooke	Q2 2016	-1.3	6.8	809	277	92	185	519	230,453
	Q2 2015	4.3	7.0	797	560	113	447	524	232,405
	Change	-5.7	-0.2	1.5%	-50.5	-18.6	-58.6	-1.0	-0.8
Trois-Rivières	Q2 2016	3.0	7.1	798	212	84	128	351	158,727
	Q2 2015	2.8	5.9	776	144	72	72	335	162,310
	Change	0.2	1.2	2.9%	47.2	16.7	77.8	4.8	-2.2
Province of Québec	Q2 2016	0.2	7.2	857	10,676	3,229	7,447	24,563	282,863
	Q2 2015	1.2	7.7	824	10,569	3,169	7,400	23,683	275,848
	Change	-1.0	-0.6	4.1%	1.0	1.9	0.6	3.7	2.5
Canada	Q2 2016	0.7	6.9	939	53,286	19,826	33,460	178,747	506,805
	Q2 2015	0.9	6.9	919	52,248	19,284	32,964	164,909	450,675
	Change	-0.2	0.0	2.2%	2.0	2.8	1.5	8.4	12.5

Changes to the Employment Growth and Unemployment Rate represent the absolute difference between current rates and the rates for the same period in the previous year. Average Weekly Earnings is the 3 month moving average of the last month in the quarter.

QFREB by Centris®: The Centris® system contains all the listings of Québec real estate board.

n/a: Not Available

Source: CMHC (Starts and Completions Survey). Statistics Canada. QFREB by Centris®. Source for Canada resale housing data is the Canadian Real Estate Board(CREA).

Québec Region Housing Forecast - New Construction

	Housing Starts	2015	2016(F)		2017(F)		2018(F)	
			(L)	(H)	(L)	(H)	(L)	(H)
Gatineau	Single-Detached	422	200	300	250	350	300	400
	Multiples	1,162	1,300	1,400	1,400	1,600	1,400	1,700
	Starts - Total	1,584	1,500	1,700	1,650	1,950	1,700	2,100
Montréal	Single-Detached	2,402	2,200	2,400	2,150	2,450	2,050	2,550
	Multiples	16,342	13,500	14,850	13,450	15,450	13,150	15,850
	Starts - Total	18,744	15,700	17,250	15,600	17,900	15,200	18,400
Québec	Single-Detached	826	700	850	600	900	525	900
	Multiples	4,616	3,000	3,600	2,350	3,250	1,850	2,975
	Starts - Total	5,442	3,700	4,450	2,950	4,150	2,375	3,875
Saguenay	Single-Detached	205	140	160	130	170	120	190
	Multiples	300	135	165	140	200	140	220
	Starts - Total	505	275	325	270	370	260	410
Sherbrooke	Single-Detached	305	240	270	230	315	230	320
	Multiples	1,062	830	890	770	960	720	1,080
	Starts - Total	1,367	1,070	1,160	1,000	1,275	950	1,300
Trois-Rivières	Single-Detached	180	200	220	225	275	225	275
	Multiples	320	325	365	375	425	375	475
	Starts - Total	500	525	585	600	700	600	750

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Source: CMHC (Starts and Completions Survey and Market Absorption Survey). CMHC Forecast (2016-2018).

Québec Region Housing Forecast - Resale Market								
		2015	2016(F)		2017(F)		2018(F)	
			(L)	(H)	(L)	(H)	(L)	(H)
Gatineau	Centris® Sales	3,528	3,850	3,950	4,000	4,200	4,100	4,300
	Centris® Average Price($)	244,300	244,500	248,500	246,500	253,500	249,500	256,500
Montréal	Centris® Sales	37,890	39,000	40,500	38,500	42,500	39,000	44,000
	Centris® Average Price($)	337,263	342,000	352,000	350,000	365,000	359,000	378,000
Québec	Centris® Sales	6,621	6,575	6,925	6,625	7,175	6,800	7,400
	Centris® Average Price($)	265,204	260,000	266,000	253,000	267,000	252,000	266,000
Saguenay	Centris® Sales	1,115	1,050	1,150	1,050	1,200	1,075	1,250
	Centris® Average Price($)	180,696	177,000	181,000	176,000	182,000	175,000	184,000
Sherbrooke	Centris® Sales	1,658	1,700	1,850	1,750	1,875	1,750	1,950
	Centris® Average Price($)	244,779	225,000	242,000	224,525	243,475	226,500	248,000
Trois-Rivières	Centris® Sales	1,079	1,075	1,115	1,075	1,125	1,000	1,100
	Centris® Average Price($)	158,994	159,000	161,000	160,500	163,500	161,500	166,500

QFREB by Centris®. The Centris® system contains all the listings of Quebec real estate board.

The forecasts (F) included in this document are based on information available as of 30th September 2016.

(L)=Low end of Range (H)=High end of range.

Source: Centris®. CMHC Forecast (2016-2018).

Québec Region Housing Forecast - Rental Market

		2015	2016(F)	2017(F)	2018(F)
Gatineau	October Vacancy Rate (%)	5.9	5.5	5.1	4.9
	Two-bedroom Average Rent (October)($)	751	755	760	765
Montréal	October Vacancy Rate (%)	4.0	4.0	3.8	3.6
	Two-bedroom Average Rent (October)($)	760	775	790	800
Québec	October Vacancy Rate (%)	4.0	5.0	6.0	6.0
	Two-bedroom Average Rent (October)($)	788	788	786	784
Saguenay	October Vacancy Rate (%)	7.1	7.5	7.0	7.0
	Two-bedroom Average Rent (October)($)	598	600	605	610
Sherbrooke	October Vacancy Rate (%)	5.8	6.0	5.8	5.8
	Two-bedroom Average Rent (October)($)	608	625	635	645
Trois-Rivières	October Vacancy Rate (%)	6.0	5.5	5.0	4.8
	Two-bedroom Average Rent (October)($)	581	590	600	610

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 30th September 2016.

Source: CMHC (Rental Market Survey). CMHC Forecast (2016-2018).

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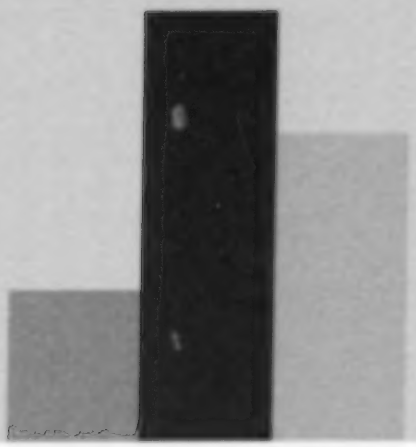

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